

6/1/78 – Water Policy Briefing Book [1]

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THE WHITE HOUSE
WASHINGTON

April 29, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT
BERT CARP

SUBJECT: Water Policy

*Stu - After
brief review of
my comments,
we need to get
together to answer
a few questions &
let me make
final decisions*

JC

The attached memorandum presents in detail the water policy recommendations developed by the Interior-OMB-CEQ working group chaired by Secretary Andrus. Each principal of the review effort was also invited to submit to you a very brief memorandum presenting their views of the most critical aspects of water policy reform.

This memorandum outlines my recommendations and comments on the issues. (My recommendations are also reflected in the underlying memo.) I have met with Congressmen Foley, Udall, Bizz Johnson, Mikva, Miller, Phil Burton, and Butler Derrick's aide, and with Senators Randolph, Johnston, and Gravel as well as key Senate staff. Frank Moore's office is setting up additional Congressional sessions for me.

Recommended Package

I believe these recommendations would fulfill, to the maximum extent possible given realistic political constraints, your pledges to promote greater economic efficiency, environmental preservation, water conservation and State responsibility in national water development. We have sought to utilize administrative rather than legislative mechanisms wherever possible, and to avoid unwinnable legislative battles.

1. Improving the planning and selection process for Federal water projects:
 - a. Direct the Water Resources Council to prepare a strict manual for agency project planning and cost-benefit analysis, and particularly to scrutinize the most prevalent abuses in the current cost-benefit analysis process. This manual would interpret and implement the existing Principles and Standards. This will

for the first time make agency procedures consistent and should weed out projects which are justified by false or inflated benefits.

- b. Add consideration of water conservation and a requirement to formulate non-structural alternatives to the Principles and Standards. These are two critical changes in the existing P&S which we hope will help begin to shift the universe of projects away from large impoundments and toward more modest, environmentally less disturbing projects.
- c. Publicly enunciate "Presidential project selection criteria" which will indicate the factors you will consider in making project budgeting decisions or decisions to support project authorizations and appropriations bills. These proposed criteria are flexible, but will give you a basis for defending your future decisions on individual projects.
- d. Establish an independent water project review function in the Water Resources Council which will check the accuracy of cost-benefit calculations and compliance with other planning requirements. This will have a positive effect on the quality of agency planning, but the process would occur before an agency makes a funding request for any particular project. It should therefore help weed out or modify unsound projects before they leave the agency planning process. Critics of this review function will charge that it is another layer of bureaucratic delay. We believe that it could be an important tool to improve Federal project selection procedures and that it not actually add delay. Senators Johnston, Gravel and Randolph were very concerned with the additional time involved by WRC review in addition to the OMB review. I suggest you approve this review with the requirement that the WRC review be done within a finite number of days.

2. Water conservation initiatives

- a. The Bureau of Reclamation water pricing and project repayment arrangements are not well administered, and project water is sold at prices lower than authorized by existing law,

thereby encouraging wasteful water consumption. The Secretary of the Interior should be directed to audit and appropriately adjust water pricing in each irrigation project, similar to what he is already doing in the Central Valley Project. Renegotiated contracts as well as new contracts should be for only a 5-year period, rather than up to 40 years now in contracts. You may wish to make this a 10-year period since the change from the current 40-year practice is rather drastic. This will result in higher prices for irrigation water, which will encourage conservation. In individual cases in which the Bureau seeks higher prices, the initiative may become controversial with farmers. But since we are merely proposing to fully implement existing law this should not become a major Congressional issue.

- b. States should be offered an opportunity to raise prices on municipal and industrial water supplied from Federal reservoirs in order to achieve water conservation. The Federal government would continue to recover costs as allowed in existing law, but the States would be empowered to add surcharges above these prices. This initiative would place some of the burden on the States to encourage water conservation, while providing them an incentive to do so by allowing them to keep the revenues. It is not clear how many, if any, States might exercise this power. This would require legislation with the prospect of passage uncertain. Secretary Andrus opposes state pricing beyond full cost recovery because he believes it is legally and administratively difficult to accomplish.
- c. Federal "grass-roots" programs of HUD (urban extension), Agriculture and Interior should provide technical assistance in water conservation. This would require about \$15 million in additional funding annually. This would provide information and advice on a local level on how to achieve water savings.

Environmentalists have recently criticized the Administration for backing off on water policy reform. They are particularly concerned about the recent approval of a Federal right-of-way for the Foothills municipal water supply project in Denver, and have heard rumors that Secretary Andrus might be changing his position on the Narrows project, deleted by the Congress last year, in deference to Senator Haskell who supports the project. They were disappointed at our compromise on water projects last year, and will be looking for a commitment to be "tough" on the authorized backlog of projects. The independent review function and improved cost-benefit analysis will help, but the environmental community may greet our proposals with skepticism.

With the exception of Dick Lamm, the Governors have become more cooperative as a result of their extensive consultation with Secretary Andrus and others. I think your upcoming meeting with them should be an essential ingredient of your decision on cost-sharing, which is of course one of their main concerns. There is nothing in the water policy which violates your commitment not to pre-empt State water management responsibilities, and I think that most Governors will recognize that. The proposals do not include a major funding program to help Eastern cities with deteriorating water supply and distribution systems. The State grant proposals will help all States, not just the West, but some, such as Governor Dukakis, may criticize the policy as being too Western-oriented.

Consultation

You have stated your intention to consult with interested Governors and Members of Congress before making your final decisions. I would therefore recommend that meetings be set up shortly after your return from the West, and that final decisions be announced later in May.

We have also identified key Members of Congress with whom you should consult.

- d. A number of Federal programs which affect water consumption should be modified to include water conservation initiatives:
 - EPA, USDA and Commerce water supply and sewage treatment programs should require community water conservation measures as a condition of grants
 - HUD, USDA and VA should require water-saving measures in new housing receiving Federal assistance
 - GSA should implement water conservation measures in Federal buildings
 - other Federal agencies should take water conservation actions as appropriate
- e. Interior and Agriculture grant and loan programs which in some cases exacerbate local or regional water shortage programs should be modified to encourage water conservation and reduce disincentives to conservation. This is a potentially controversial initiative, which could include such steps as disallowing loans to farmers for drilling new wells for irrigating new lands in water-short regions. It should be implemented very carefully, in close continuing coordination with the White House.

3. Environmental protection

- a. Existing statutes should be enforced, and agencies should be required to demonstrate compliance before specific project funding decisions are made. This will be particularly important with respect to the Fish and Wildlife Coordination Act which has been ineffectively applied to water projects.
- b. Non-structural flood control measures should be encouraged. There needs to be better implementation of your flood plain Executive Order, and existing Interior, Commerce, Army and HUD programs should take appropriate opportunities in existing programs (Land and Water Conservation Fund, Community Development Block Grants, EDA programs, Corps of

the initiative is so complicated that it might be misinterpreted as meddling in State water rights. I believe it would be better to allow States to use some of the other grant money for this purpose without highlighting the issue. Secretary Andrus shares this view.

Likely Response to Proposals

As indicated, I have consulted with Members of Congress, and my staff and the study task force have consulted widely among interest groups, the Congress and State governments. Based on these discussions, the proposals I recommend would promote controversy in the West but would not promote the furor raised over water projects last year. But the reaction would be brutal if you accept all the recommendations CEQ proposes. Any effort to get full cost recovery for agricultural irrigation projects and to abolish the "ability to pay" standard so that farmers were required to pay more than they are able to pay, would be deadly, as would an effort to require cost-sharing above Andrus' 10% proposal, and the SCS recommendation by CEQ.

In the Congress the proposals which seem to generate the most concern are the cost-sharing proposal (the 10% State share) and the independent review function over water project compliance with planning requirements. The 10% State share raises the problem that richer States (e.g., California) will be able to afford more than poorer States (e.g., West Virginia). Some Members of Congress (both water project supporters and opponents) fear that increasing the role of the States will in some cases run counter to the national interest.

I believe the independent review function is a key ingredient for gaining environmentalist support for the proposal. Among environmentalists and others, the existing water project planning process has no credibility. Merely directing that accurate cost-benefit calculations be prepared by the agencies themselves would not be sufficient to indicate that we are serious about reform.

Some of the Congressional concern can be allayed by making sure that undue delay is not added to the system and that the process stresses technical review rather than becoming heavily politicized.

3. The OMB cost-sharing option. OMB proposed a major overhaul of the cost-sharing system, substituting 25% local and State financing for all other cost-sharing arrangements for all projects. While this option would be simpler and is attractive in some respects, it has no chance of passing the Congress. In addition, the benefits of a simpler system must be compared to the disadvantages of completely disrupting the existing set-up. This is so unrealistic that it may damage the credibility of our effort to have a balanced water policy which is not perceived as anti-Western. If we are fortunate enough to win the principle of 10% up-front cost-shares, we may be able to move toward a more rational system with larger state and local shares in future years.
4. Requiring 10% up-front financing for Soil Conservation Service projects. I strongly oppose this recommendation. SCS projects are typically smaller than Bureau or Corps projects (average size - \$4 million), and the requirement to raise additional cash contributions would work hardship in many cases to farmers and rural communities. In our view, the best way to limit environmental damage in the SCS program is to vigorously enforce the requirements of the P & S, which has not been done. Moreover, I feel that the slim chance of passing this requirement and the political furor it would raise in every State makes this an unwise option. I recognize that many SCS projects have been very damaging. But I think that the greatest improvements in the program will come from tightening the existing cost-sharing arrangements to make sure that the agreements made by the beneficiaries for land treatment and operation and maintenance are actually carried out and tightening up on other procedures which are now lax. Secretary Andrus agrees that applying the 10% to SCS projects is a politically untenable option. Little in budgetary savings would result because of the small amounts of money involved. By not increasing cost-sharing in SCS projects (some already have substantial cost-sharing), we would have a better chance of getting cost-sharing passed for other projects.
5. Grants to States for facilitating water rights transfers. I oppose the OMB proposal to have a special component of the grant program dedicated to assistance to Western States to modernize their water rights systems to facilitate water rights transfers and sales. While this might assist in water conservation,

Engineers projects) to encourage non-structural flood control. This initiative should not skew existing priorities but would encourage taking advantage of opportunities which are consistent with other program purposes.

4. Cost-Sharing

Congressional passage of significant cost-sharing reform is unlikely. It can be argued that a credible water policy package must address the problem that beneficiaries of projects and the States where projects are located participate very little in their funding. Of the options presented in the decision paper, I favor the one that States be required to put up 10% of the financing of new projects in cash rather than "in-kind" contributions. SCS projects should be exempted from this requirement as discussed below. In addition, I tentatively recommend action to redress the most severe problem -- extremely low cost-sharing rates for structural flood control measures by increasing structural flood control cost-sharing to the same level as non-structural projects -- 20%, including "in-kind" contributions of lands, easements and rights-of-way. These cost-sharing reforms would apply only to new authorizations. In addition, I recommend administrative reform of the process of calculating the value of "in-kind" contributions under present law -- a step which without legislation can improve cost-sharing in SCS and other programs.

However, I have doubts about cost-sharing. It will discriminate against poor states, will virtually exclude large projects in the future, and will be difficult to apply for projects of a regional nature. Mikva and Burton were concerned that it could give States a veto over needed projects.

Because of likely Congressional opposition, I think it is important that you make no decision (even tentative) on either cost-sharing option until you meet with the Western Governors after your trip and until my Congressional consultation is complete. Although Secretary Andrus strongly supports a 10% cost-share, you may decide it is too unpopular to propose. In any event, as between the two options, the 10% is clearly more responsible. The 25% OMB option is completely out of the ballpark of reality.

5. State-Federal cooperation

- a. State grants. Of the three components presented in the paper, I believe only two deserve funding:

(1) State planning grants. I recommend that you approve the increase in the minimal WRC program (\$3 million) to \$30 million in 50-50 matching grants, half of which would be distributed by formula and half on a competitive basis. The funding would go for water planning activities (not implementation) which stress conservation, better water management and integration of water quantity and quality planning.

(2) Funding of State water conservation technical assistance programs. I also recommend that funding be provided to the States for implementation of water conservation programs (\$50 million is proposed). Most of this money would be distributed on a formula basis, but \$10 million would be held in reserve for targeted programs for water-short areas. I believe that this grant money is an essential demonstration of our commitment to water conservation and a "sweetner" for some of the States who view Federal involvement in water policy as largely negative.

For reasons discussed later, I do not recommend a separate grant program for improving State water rights exchanges. Secretary Andrus feels likewise.

- b. Several suggestions are made which would increase Federal-State cooperation in instream flows, groundwater management and hydrologic data without interfering with State water rights or allocation. These are not major initiatives, and I think they should be approved. In States interested in making improvements in these areas, these steps will help. In all States, there would be more attention paid to the effects of Federal projects on instream flow and groundwater management problems.
- c. Justice and Interior have worked out a process to begin to resolve Federal reserved rights and Indian water rights issues. These are very

controversial subjects, and when these rights are quantified, there will be some difficult conflicts, but the proposals here represent a good balance of cooperation and responsible exercise of Federal responsibilities. I recommend they be approved. With Federal reserved rights, the affected agencies (Forest Service, Park Service, etc.) would be directed to expedite efforts to resolve these rights and to be reasonable in the water claims made by the Federal government. For Indian water rights, the BIA would move faster to inventory and quantify tribal water rights. In both instances, negotiation would be encouraged rather than protracted litigation.

Negative Recommendations

I believe you should reject the following options which are discussed in the decision document;

1. Increasing the discount rate for authorized "grand-fathered" projects. All agencies are in agreement that legislation should not be proposed to increase the discount rate for previously authorized projects. The CEA does not believe such a change is appropriate on economic grounds, and the Congress would never pass such a bill. For new projects, all agree the current discount rate is adequate.
2. Full cost recovery for new Bureau of Reclamation water projects (new authorizations only). CEQ proposes that for new irrigation projects, all Federal costs be recovered through water pricing and repayment arrangements for irrigators, so that the only subsidy would be the low Federal borrowing rate. This would abolish the concept of farmers' "ability to pay" which lies at the root of the present Reclamation law. This would be extraordinarily controversial. The Congress would never pass the necessary legislation, and since it would apply only to new authorizations, it would have little impact on the program for many years. Still, Western water and agriculture interests would attack us vigorously. It would be interpreted as a policy decision to end support of the Reclamation Act concept of substantial subsidies for irrigators, which we have endorsed, at least for existing projects. All agencies except CEQ agree full cost recovery is unrealistic.

It would also be appropriate for you to meet with outside groups, including the environmentalists who are particularly concerned about the water issue. This meeting is tentatively scheduled for Thursday, May 11.

I would also recommend that Secretary Andrus, Jim McIntyre, Charles Warren and White House Staff engage in consultation with these groups prior to final announcements. A good consultation strategy is essential to fine-tuning the final decisions and to building a constituency for our reform proposals.

Timing

The only real deadline we are facing is to send up to the Congress our proposed FY1979 "new starts." OMB is preparing a proposed list which, at the outside, should be sent to the Congress in late May, preferably earlier.

Tentative Schedule

Week of May 1:	Preliminary Presidential decisions
Early May:	Staff and Cabinet consultation with Members of Congress and Governors
Mid-May:	President meets with Western Governors
Late May:	Announcement

If you approve I will firm up this schedule with Jack, Fran Voorde, Cecil Andrus and other involved.



THE SECRETARY OF THE INTERIOR
WASHINGTON

April 29, 1978

Honorable Jimmy Carter
The President
The White House
Washington, D. C. 20500

Dear Mr. President:

Since transmitting my weekly report, I have been advised that Stu has requested a brief statement of my perceptions and advice on the water policy. My comments follow, but I would still be desirous of chatting with you about the document if you have further questions whether technical or political.

In my judgment, the most important element of reform is the cost sharing aspect where I recommend that the state participate in the cost with an up-front share of 10%. This does many things that are not obvious, such as requiring state legislative action through the appropriation process, hearings will be held at the state level where projects will be reviewed prior to federal review, the backlog will be diminished, the discount rate problem will not have to be addressed, and most of the bad projects will be eliminated. Provisions will have to be incorporated for small states with large projects and multi-state projects, but it is the best way that I see to get more people into the decision-making process and alleviate the political heartburn at our level. It is within the financial capabilities of the states, and I believe that most Governors and key Members of Congress will support it.

In the section on conservation pricing of municipal and industrial water and hydro-electric power (page 29), I recommend against state pricing beyond full cost recovery because I think it is legally and administratively difficult to accomplish.

I join with the Domestic Policy Staff in opposing the application of the 10% cash cost sharing to SCS projects because of the current situation in the agricultural community. They also participate in other ways.

If we choose to make any money available to the states as suggested in various recommendations, I would recommend that all such monies be made available strictly on a competitive basis for specific purposes. It was my experience in state government that automatic entitlement grants to states to do general planning accomplished very little.

The state water exchange plans could cause problems if misinterpreted. We could find ourselves on the defensive and denying that this means the federal government is advocating the selling of water. People like Dick Lamm would love to raise that flag.

I believe the WRC's (Water Resource Council) budget will need more than \$1,000,000 if they handle the review process.

With reference to new starts, it is my understanding that we committed to the Congress that new starts would accompany your water policy. If this is the case, we may face a May 15 deadline for add-ons to the 1979 budget.

I am encouraged by the contributions of the Governors to the report, most particularly Scott Matheson. He has helped us tremendously. I am optimistic about the initial reactions of individual Congressmen to date and I believe we have a course to pursue that the party can support, and that will lead to solid reform.

Sincerely,

A handwritten signature in dark ink, appearing to read "Cecil D. Andrus". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

CECIL D. ANDRUS

WARREN

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
722 JACKSON PLACE, N. W.
WASHINGTON, D. C. 20006

MEMORANDUM FOR THE PRESIDENT

FROM: Charles Warren
Gus Speth



SUBJECT: Water Resources Policy Reform

The review and decision document prepared for you is the condensation of a joint effort by Interior, OMB, and CEQ during the past year. We offer the following comments to provide a political perspective for your consideration of the specific actions proposed for your decision.

The document reflects many compromises already made between the extremes of sweeping reforms (considered politically infeasible) and the status quo (considered unacceptable). Most of the more controversial options generated earlier in the process have been eliminated from the recommendations. These include: seeking full federal cost recovery from project beneficiaries; raising the existing discount rate for computing project benefits; rewriting the Principles and Standards for project planning; preempting state laws regulating ground and surface water withdrawals; and generally applying reforms to projects already under construction.

Nevertheless, if you consistently select the reform actions presented in the decision document, you will initiate a set of significant reforms constituting a new national water policy. We therefore strongly urge you to do so.

Much of the public discussion and press coverage of water resources policy during the past year has been focused on the political opposition to reform, particularly in the West. We believe there are good political reasons which support reform, and which deserve considerable Administration emphasis: These include the following:

- ° A strong, broad-based popular constituency exists -- even in the West -- that wants water resources policy reform. This water resources reform constituency -- which is sometimes obscured here in Washington by better organized and financed interests -- strongly supported you in the 1976 campaign and will be needed in 1980. This constituency has already publicly questioned the Administration's continued commitment to water resources reform and has expressed grave concerns that the more far-reaching reforms mentioned earlier are not being pressed.

- ° Political support for reform can be broadened by stressing the great waste of federal funds involved and the loss of recreational opportunities. The subsidies are huge and benefit primarily large business interests and construction firms; the projects are capital intensive; not labor intensive. There is a need to protect recreational opportunities, particularly in the West where outdoor recreation is probably more highly valued and more frequently engaged in than in many parts of the nation.
- ° Most of the meritorious water projects have already been constructed or are well underway. Many of the projects in the backlog cannot be justified economically or environmentally; and it will not be easy to identify a large number of new, meritorious large water projects.

There are two additional points we believe you should consider. First, there are additional legal authorities which were not emphasized in the decision document for the federal government, primarily the EPA, to protect instream flows and ground water quality; these authorities are being developed carefully to avoid unnecessary state-federal conflicts. You should therefore avoid making statements which imply that the only federal initiatives in this area are contained in the document. Second, the Administration's recent publicly stated support for liberalization of the existing Reclamation law on 160-acre irrigation limitation is a positive step to aid western farming interests, and should be cited in connection with these reforms to counter criticism that you are trying to stop water development in the West.

In conclusion, we stress the need for a long-term perspective for and commitment to water resource policy reform. Many of the initiatives proposed in the paper will not have an immediate effect. However, if there is a persistent Administration commitment to follow through with the implementation of these reforms in the years ahead, and to resist the attempts by certain Congressional and other interests to reinstate the status quo, then these reforms should bring about substantial improvement in the economic efficiency and environmental quality of federal water resource programs and projects over the next decade. We believe that this is a commendable and politically attractive goal.

WEXLER

THE WHITE HOUSE

WASHINGTON

April 29, 1978

MEMORANDUM FOR:

THE PRESIDENT

FROM:

ANNE WEXLER *AW*

SUBJECT: Water Policy Decision Document Prepared
by Interior, OMB, CEQ

I have some political and tactical comments:

- o The proposal most adversely affects rural and agricultural areas excluded from the urban package, where we already have farm policy problems.
- o The press will give major emphasis to cost-sharing, but Congressional action is unlikely in the near future (see page 38). Given our Congressional situation, I would not recommend either cost-sharing option at this time.
- o The proposal has so much in it that the main purpose might be obscured---to wit, (1) that the billions spent on water projects not benefit just a few people, (2) that there be due regard for the environment, and (3) that water not be unnecessarily wasted.
- o In addition to the emphasis on conservation and some money to state and local governments for planning and technical assistance, we need to add a program for applying existing government-held technology to reduce unnecessary water consumption in industry and agriculture.

Therefore, I would suggest:

- A. Announce the program as a positive one, particularly for agriculture and industry, while emphasizing balanced environmental and conservation concerns.
- B. Do not adopt either cost-sharing option; rather allow further consultation with states, agriculture, industry and the Congress to better understand what kind of cost-sharing can be passed. This avoids committing us now to a proposal which Congress will not act on.

- C. Direct all federal agencies, particularly Agriculture and Commerce, to work with farmers and business on developing and applying new technologies for the more efficient use of water. You might consider some additional limited funding for necessary staff resources and consulting engineers.
- D. On the pricing of irrigation water (pages 25-26), I encourage you to adopt option A.

PARTICIPANTS

add to
water poling menu



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAY 1 1978

MEMORANDUM FOR:

THE PRESIDENT

FROM:

James T. McIntyre, Jr. *Jim*

SUBJECT:

Water Policy Reform - Cost Sharing

In general I support the recommendations contained in the report prepared by Secretary Andrus, Chairman Warren, and myself for reforming Federal water resources development policy.

This memorandum is to urge you to decide in favor of the second cost-sharing option - joint financing at a uniform 25% non-Federal cost share. (see pp. 34-40 of the Report) I consider the cost sharing issue to be the most critical issue presented in the report from the standpoint of reducing the pork barrel nature of water resource project decisions in this Nation.

I firmly believe that the uniform 25% rule should be supported for the following reasons:

- It will supersede the current system with its variety of rules that are generally considered in need of reform by the water development community and that
 - ° encourage shopping among Federal agencies for the best deal,
 - ° encourage distortion of project designs to emphasize purposes that minimize non-Federal costs.
- It will replace the present system with a single rule easily understood by all, that will remove market incentives to choose non-optimal projects.
- It will achieve all the other benefits of option 1 as well - in that option 2 contains all the elements of option 1 plus the simplification feature.
- It should be salable to Congress since it would apply statutorily only to projects not yet authorized by Congress - and voluntarily to authorized but unstarted projects and features.

- It would involve a greater commitment from State and local interests than option 1, thus
 - ° involving an even stricter test of the benefits vs. costs by the beneficiaries themselves and their State and local governments,
 - ° reduce pressure on the Federal budget to a greater degree,
 - ° enhance incentives to resolve environmental issues and benefit-distribution issues at State and local levels rather than in Washington.

I do agree that option 1 would be an improvement over the present system, as it will bring State governments meaningfully into the decision process and will aid in shifting the locus of environmental and beneficiary-distribution decision making back toward the States from Washington. However, it falls short in that it fails to simplify the present system (indeed complicating it by adding another requirement) and fails to grasp this opportunity to press for deep fundamental reform.

One final point - if you do select option 2, as I recommend, you may want to consider making the 25% rule applicable to the Soil Conservation Service as well as to Corps, Reclamation, and TVA. The reasons for not doing so are well set forth in the basic memo. Some reasons for doing so are:

- Exempting the SCS, or providing special rules for it, will violate the principle of uniformity on which the fundamental reform is based, and perpetuate to some degree the agency-shopping phenomenon.
- If only farmers contributed to SCS projects, a case might be made that 25% is too much to ask, but soil and water conservation districts can make these contributions and they are frequently comprised of communities and other nonfarm interests as well as farmers.
- Allowing the 10% cash contribution to be made by soil and water conservation districts rather than State governments - a minor concession - should meet any unique requirements of SCS projects.

The judgment to be made here obviously is a political one: the virtues set forth here, versus the political risks of further alienating the farmers.

ANDRUS

shall you be able to find
the information for me?

THE WHITE HOUSE

WASHINGTON

June 1, 1978

Stu
J

MEMORANDUM FOR

THE PRESIDENT

FROM

STU EIZENSTAT
KATHY FLETCHER

Stu

SUBJECT:

Follow-up on Water Policy
Decision Memorandum

This memorandum responds to your questions and comments on the water policy decision memorandum. Your consultation with Governors and environmentalists and my meetings with local government officials, State water representatives, Governor Lamm and on the Hill have yielded new information and perspective which are also reflected here. This follow-up memorandum was prepared in full cooperation with Interior, OMB and CEQ.

You will shortly be receiving a memorandum recommending new water project construction starts, and seeking guidance on the Administration's posture on the House Appropriations Committee public works bill.

We have worked out the following schedule with Interior and other parts of the EOP:

Release Water Policy Message June 6

Release New Start Recommendations ... June 8

The release of the water policy will be preceded by briefings of Governors, Congress and public groups. Release would be at a White House press briefing. We are also planning simultaneous regional briefings.

The new start announcements are scheduled to follow the policy announcement so that press attention will not be diverted to specific projects and so that any "bad news" (a new start not on the list) will not preclude positive comment on the policy itself by Members of Congress or Governors. The House Appropriations Committee is already moving forward to fund water projects in excess of our recommendations -- including funding for seven of the nine projects deleted last year. There almost certainly will be a conflict with Congress over this.

✓ Approve schedule

Disapprove ✓

Following is augmentation of the larger decision memorandum. Page numbers refer to that memo.

p. 17. Enforcement of Existing Laws. You directed that immediate steps be taken to enforce existing laws with respect to these water projects. Later in the paper (p. 32) initiatives are described to insure enforcement of the Fish and Wildlife Coordination Act, the Historic Preservation Act and other environmental statutes. With respect to projects under construction, violations of law may be occurring, some of which are the subject of pending litigation. The directives would apply to these projects, although this should not be highlighted as part of the reform package. Interior and CEQ are working with us to insure that these directives and actions are as effective as possible. It is likely that precise implementing procedures and perhaps implementing regulations will be necessary to properly carry out these statutes. do so

p. 18. FY 1980 criteria. You asked whether the improvements in benefit/cost calculations and the independent review process for water projects could be implemented in time for the FY 1980 Budget. Unfortunately, we are informed that this is not possible. The key task -- preparation of the Principles and Standards implementation manual -- will take from 9 to 12 months; the agencies feel it would be unwise to cut that period short because it will need to be carefully done. As currently proposed, the task would be carried out by the WRC, involving the concerned agencies and the public. However, you have approved the use of Presidential criteria (p. 19) immediately. These criteria will provide guidance for budgeting decisions. They are already proving helpful in identifying potential new starts for FY 1979 and will be used for FY 1980. ✓

p. 29. Municipal and Industrial Water Pricing. You asked about the Governors' position on the proposal to give States the option to price municipal and industrial (M&I) water from Federal projects at conservation rates and to recover the additional revenue. This option has not generated significant positive or negative reaction from

States in our consultations thus far, although as currently formulated Mayors from Western cities do not support it since they are concerned that rural-dominated legislatures will impose higher water charges on them. We have therefore developed an alternate proposal which we believe is more equitable and in which all agencies concur:

States would be given the option to require conservation pricing from Federal projects, but the cities or other marketing entity would recover the excess revenues for use in water conservation or system rehabilitation. Cities still will not support this option even with this change but it addresses their legitimate concern that rural-dominated legislatures will impose high fees as a way of taxing cities to the benefit of other areas.

✓
_____ Approve

(Consensus)

_____ Disapprove ✓

p. 32. "Mitigation." You asked for an explanation of the proposal to require better implementation of "mitigation" requirements. Under the Fish and Wildlife Coordination Act, wildlife losses caused by water projects are to be "mitigated," usually by protecting or improving nearby equivalent wildlife habitat. Often this requires the purchase of additional land areas. Typically, the Corps and the Bureau of Reclamation have placed low priority on preparing and fulfilling wildlife mitigation plans; often the plans have not been completed at all.

The initiatives proposed in the paper would require concurrent funding of mitigation and construction efforts and would require close monitoring by Interior and OMB of agency compliance with the Fish and Wildlife Coordination Act. As noted above, Interior needs precise implementing procedures or regulations in order to better enforce this statute. We will see that these are promulgated. ✓

p. 33. Purchase of Flood-Prone Structures. The request for \$20 million in the FY 1980 Budget to implement existing statutory authority for the Federal Insurance Administration to purchase flood-prone structures rather than pay for repeated repair was designed to save Federal dollars and to encourage sound floodplain management. This initiative would be an important demonstration of

commitment to non-structural flood control and to better floodplain management, one of the key reform areas. However, following submission of the decision memorandum, OMB and HUD have reversed their recommendation and it now appears premature to fund this program. HUD is conducting a study and OMB is concerned that a workable program may not be possible. We will monitor this issue and make appropriate recommendations when HUD's study is complete. Thus, no funding should be requested now. ok

pp. 34-41. Cost-sharing

Discussions with Governors and State water directors indicated that additional options should be considered for State cost-sharing. Governors raised the legitimate problems of small States, multi-State projects and the difficulties of financing projects without revenues. In the initial memorandum you chose a 10% cost-sharing option favored by everyone except OMB over the 25% cost-sharing option proposed by OMB. We have further refined the 10% option.

- Army comments. On page 39, you noted the comments of the Department of the Army on cost-sharing and asked if the existing patchwork cost-sharing situation could be addressed in any way.

During the study process, Army and Agriculture supported a "consistency" cost-sharing option which would establish common cost-sharing rules for each project purpose, across agency lines. It would replace the existing 185 cost-sharing rules and would establish a fixed percentage cost-share for each project purpose such as flood control. These fixed percentages would be arbitrarily set at the average of existing rates. Operation and maintenance costs would be factored in to the cost-sharing calculation to remove the existing bias in favor of high front-end cost, low operation and maintenance costs.

The "consistency" option was not recommended because of practical and political problems, although the initial OMB 25% financing option is similar in concept. The problems with the "consistency" approach are as follows:

- It would be difficult to defend an arbitrary percentage recovery for each project purpose; thus consistency would be simpler but not necessarily more rational than the existing system.
- Including operation and maintenance in the cost-sharing formula, while removing a bias in favor of capital-intensive structural projects, adds a major loophole because future expenditures could be credited by locals against their cost share.
- Congress is even less likely to revamp the entire cost-sharing system than to accept our more targeted approach to add State financing and to equalize structural and non-structural flood control.
- It would stir up intense political opposition and is not now expected as part of this policy, given the views of a majority of the task force, which you tentatively approved.

The initial OMB 25% financing option presented in the paper comes close to the "consistency" concept. It differs in making no distinction among different project purposes, and the cost-sharing would apply only to capital costs (not O&M). Under the OMB option, O&M would continue to be picked up by locals where it is performed by the Federal government. The consistency option would allow in-kind or cash contributions; the OMB option would allow only cash.

The 10% State financing and the two new options presented in this memorandum (10% on vendibles only; 10% on vendibles and 5% on non-vendibles) would leave the existing system in place with one important exception -- flood control cost-sharing would be equalized at 20% for both structural and non-structural measures, allowing in-kind contributions. This equalization would redress one of the most egregious cases of "inconsistency" addressed by the Army-Agriculture proposal. Waterway user fees (pending in Congress) and improvements in irrigation water pricing (treated elsewhere) will help redress

the other most serious "inconsistency" problems. DPS, Interior and CEQ strongly believe that this "targeted" approach which you tentatively approved ✓ has a much better chance of success and that it will have substantial beneficial effects.

- State financing. Three options have now been developed, based on your initial decision for a 10% cost share, which would provide for State cash contributions toward the cost of constructing water resources projects. Each of the three options include four common elements: a) an annual project-by-project 'cap' on State contributions limiting them to 1/4 of 1% of the State's general revenues per project per year to protect small and poor States; b) application of the requirement for State contributions only to projects not yet authorized by law -- States would not be required to contribute to construction costs of projects now authorized but not yet constructed; however, if a State voluntarily provides financing, it could gain expedited consideration for authorized projects; c) revenues from sale of vendible outputs would be shared between the Federal government and States in proportion to their investments; and d) equalization of non-structural and structural flood control cost-sharing (as noted in the decision document, p. 37).

1. 10% financing for all project purposes -- would require States to contribute 10% of the total construction cost of each water project within its borders, in increments proportional to the annual Federal expenditures for construction. This is the option originally presented to you. CEQ is the only agency which still supports this option, pointing out that where there are net economic benefits, they accrue to beneficiaries whether or not they are sold. Revenues are generated both by selling vendible outputs and by increased tax base or specific taxes to support projects. They feel that a minimum of 10% is necessary to make a State financial commitment meaningful.
2. 10% of costs allocated to vendible purposes only -- would require States to contribute 10% of the construction costs associated with the vendible

outputs of water projects and would allocate to States a proportionate share of the revenues. "Vendible outputs" are defined as those water supply, irrigation, power, and recreation benefits of projects for which the Federal government receives revenues from project beneficiaries under present policies. This option is based on the fact that States will be better able to finance projects where revenues are anticipated. The definition of the costs of vendibles would allow States to base their 10% contribution on a relatively small proportion of the total annual construction cost of water resource projects, since many projects have non-vendible outputs, and projects which provide vendible outputs also usually provide non-vendible outputs or vendible outputs not paid for by beneficiaries. A considerable share of Corps projects (flood control, for example) would be exempted, although most Bureau of Reclamation projects have primarily vendible outputs.

3. 10% of costs allocated to vendible purposes plus 5% of costs for all other purposes -- would require States to contribute 10% for vendibles, as above, and 5% for non-vendibles. This would insure that the States contributed at least a small amount for all projects with non-vendible outputs (such as flood control) as well as a portion of all the costs where a project includes vendible as well as non-vendible costs. It is anticipated that requiring a contribution for costs associated with non-vendibles would discourage pressures to favor non-vendible projects and outputs. Also, it should be noted that non-vendible outputs do have economic benefit.

DPS and Interior support this proposal because it is a fair resolution of the issue and because it will demonstrate to the Governors that we have taken their concerns into account. Their support will be essential if we are to have any prospect of passing legislation to mandate cost-sharing. OMB is willing to accept it if you have rejected their overall 25% reform option.

Inspection of the available data suggests that the 1/4 of 1% cap on State contributions would not significantly affect the amount of money contributed by States, except in rare instances of very large projects or large projects in very sparsely populated States. This cap is important to help protect small States which may have large projects built in them. It would also reflect genuine input from the Western Governors. Data showing the effect of the three options are shown on the attached charts.

Another question raised by Governors and others was how State cost-sharing would be arranged for multi-State projects. For all options, the total States' share would be computed by determining contributions from benefitting States; a State refusing to participate could not "veto" a project because other States could pick up the difference.

- _____ Approve 10% State financing (CEQ)
- _____ Approve 10% financing only on project portions with vendible outputs
- ✓ _____ Approve 10% financing on vendible outputs and 5% on non-vendibles (DOI, DPS, OMB "fallback")
- _____ Approve initial 25% option (OMB)

*ok, but
were
going
backward*

p. 41. Soil Conservation Service. You asked about changes other than cost-sharing which would improve the SCS program. The Soil Conservation Service will be covered by the proposed improvements in the planning process, since they are currently required to meet the Principles and Standards. SCS will also be affected by more stringent enforcement of environmental laws. In addition, a number of administrative steps have already been taken by Secretary Bergland in this area. We have also identified other administrative actions which would further improve the program.

Actions already taken:

- Channelization guidelines. The SCS and the Fish and Wildlife Service have issued stringent administrative

guidelines governing the use of channelization, in effect making this practice a "last resort." (These guidelines are not binding and we will be working with SCS to determine whether a binding approach is necessary.) *Try to do so*

- Review of projects under construction. As part of the water project review last year, SCS identified 48 projects with serious problems and have gone back to the local areas to terminate or modify these. An additional 77 projects which have less serious problems are being examined for possible modification as well. Thus far, approximately 600 miles of channelization have been eliminated and approximately \$25 million will be saved.
- Encourage land treatment. To insure that land treatment agreements with local sponsors are met at least in part, there is a new requirement that 50% of the land treatment measures must be in place before construction on a dam begins.
- Eliminating inactive projects. SCS has instituted an administrative process to deal with the authorized backlog by rescinding the Administrator's approval for certain inactive projects or project features. While this does not affect statutory authorization, the SCS program has a great deal of flexibility, and rescinding Administrator approval can for all practical purposes remove a project from the backlog. *When can I have a brief progress report?*
- Land treatment cost-sharing. Some construction money will begin to be diverted to cost-sharing for the land treatment measures. This will be accomplished with existing authority which has not previously been used.

Following are new actions which would improve the program beyond the above steps:

- Require on-land conservation measures to be implemented before construction (separating projects into two separate phases). This would go beyond the requirement already in place for 50% of the land treatment measures to be in place prior to dam construction, and would emphasize the soil conservation

mandate of the agency. SCS has this action under consideration and we will work with them to implement it.

✓ Approve _____ Disapprove
(Consensus)

- Equalizing funding for structural and non-structural alternatives. Critical to the selection by local sponsors of non-structural alternatives will be government cost-sharing on these choices. Our modifications in the Principles and Standards will require the formulation of alternatives, but funding arrangements will have to be equivalent between structural and non-structural solutions to encourage local areas to make the non-structural choice. A commitment to equivalent cost-sharing results from the policy reforms already recommended, and should simply be implemented by OMB and SCS. The overall program funding should be kept at approximately the same level with an increasing shift to non-structural solutions.

(Already approved by you)

- Post-project monitoring. A common problem is that the operation and maintenance and land treatment measures are neglected by the local interests after SCS project construction. Sometimes this leads to additional SCS projects later on. SCS should be directed to check back periodically on existing projects to insure that local interests are meeting their commitments to maintain these projects.

✓ Approve _____ Disapprove
(Consensus)

pp. 42-44. State Grants. We have examined your comments and concerns about the proposed State water resources planning and water conservation technical assistance grant programs. We have also discussed these proposals with officials of the Water Resources Council, EPA and State and local governments. We would like to offer a revised proposal for your consideration.

This revised option would be a combined comprehensive planning/conservation technical assistance program to the States, with a much lower budget than the proposed two programs.

The combined program would be administered by the Water Resources Council and would have a \$50 million total annual funding level, compared to \$80 million in the original proposal. Under current authorities, the WRC would distribute \$25 million to the States for comprehensive water resources planning under an existing distribution formula based on population, land area, need for water resources planning and the financial need of a State. An additional \$25 million would be distributed to the States for purposes of water conservation technical assistance based on a formula on equal shares, population and water consumption. An amendment to the Water Resources Planning Act would be necessary to provide necessary authority to the WRC for the technical assistance grants function.

All funds would be matched on a 50-50 basis by the States. A generous phase-in period for matching would be allowed so that programs could begin quickly. Federal criteria for both parts of the program would allow for involvement of local governments as well as other nationwide criteria for such assistance.

Planning Grants. A small (\$3 to \$5 million annually) State grants program for water resources planning is currently carried out by the WRC under Title III of P. L. 89-80, the 1965 Water Resources Planning Act. The authority of this program is quite broad with the goal of improving the quality and effectiveness of State water resources planning. The proposal would raise the funding to \$25 million, to assist Governors in developing a total water management capability. This would allow a Governor to bring together in one "package," for planning and policy purposes, the various Federal programs (Section 208, Section 404 regulatory, Army Corps projects, Federal Flood Insurance, SCS small watershed program, etc.) and the comparable State programs. A Governor could thus gain control of his or her State's water resources management rather than merely accepting the results of fragmented Federal and State programs and antiquated water law.

Water Conservation Grants. The water conservation technical assistance portion of the program would provide funds for: (1) public education and information dissemination, and (2) technical assistance to State agencies, local governments, non-profit organizations, agriculture and business. Expenditure of these funds for hardware, construction, or subsidies, however, would not be allowed. The States could either spend the funds directly or pass them through to local governments. We believe it important, however, to vest the program at the State level.

Your questions. In your comments you indicated several questions and concerns about the State grants program:

(1) What about the funding levels? Would \$1 million per State be effective?

If we assume that the average State would received \$500,000 for comprehensive water resources planning, when matched 50-50 with State funds, the \$500,000 Federal planning grant would produce a State water resources planning staff of about 20 professionals. This effort should allow a Governor to pull together existing Federal programs, fill in the gaps, and produce a more cohesive total water management capability.

Based on the experience and successes of the existing Water Resources Council State grants program, we believe that the expanded State water resources planning grant program would be effective at the proposed funding levels.

Because of lack of experience with a water conservation technical assistance program, the effectiveness of the program at the proposed funding levels is more difficult to predict. Experience in California, however, demonstrates that technical assistance at the State level can be a very effective water conservation tool.

A funding level of \$200,000 to \$1 million per State for water conservation technical assistance would allow for the establishment of an effective program in most States.

(2) Wouldn't this just be throwing money at the States?

Federal criteria would guide the program, and an annual reporting process would be established to insure that

(1) the State is focusing on critical problems (e.g., conjunctive use of ground and surface waters, consideration of conservation alternatives, use of non-structural approaches); and that (2) State program implementation is consistent with the State water planning performed with the grant assistance.

In addition, the water conservation technical assistance program would provide a vehicle for implementing water conservation in the States. Because almost all water law is at the State level, significant opportunity for water conservation exists at the State level. In fact, the Federal government must work through and with the States to implement a water conservation program.

(3) Will there be overlap with EPA?

We propose that the combined grant program be administered by the Water Resources Council, building on their existing State planning grant program.

There will be limited overlap with EPA's 208 program which has a specific functional thrust (i.e., an area-wide wastewater planning and management effort) and is carried out by a broad array of sub-State levels of government (e.g., counties, Councils of Governments, regional planning commissions, etc.).

We have examined the option of implementing one or both parts of the proposal through EPA. We feel this is not appropriate because States would view the grants as water quality grants, and because the money would tend to be "swallowed" by the EPA programs. If this program goes to one agency, the goals and biases of that agency are bound to influence the grants program. For example, EPA would emphasize municipal water treatment and has no mandate for flood control or water-based recreation. The Bureau of Reclamation would emphasize irrigated agriculture but has only limited authority for water quality. On the other hand, EPA argues that planning activities should be directed to meeting specific statutory goals. It is our feeling, however, that States should receive this money without assuming "ulterior motives" on the part of Federal agencies.

The Water Resources Council is composed of all the agencies with water programs and can provide the necessary balance for this grant program.

Summary. We strongly believe that a credible State grant program is essential to demonstrating several fundamental aspects of the water policy:

- improved Federal-State cooperation
- emphasis on water conservation
- nationwide importance of solving water-related problems

_____ Approve modified option (\$50 million total for planning and conservation) (Consensus) J

_____ Approve original option (\$30 million for WRC planning grants, \$50 million for conservation)

_____ Disapprove

_____ Present additional options

p. 43. Optional funding to help States with water rights processing. \$7 million per year total for three years would be given to Western States on an optional basis for use in inventorying and processing State water rights to make it easier for a user with excess water to sell his right (thereby removing a disincentive for conservation). You asked about the Governors' position on this. Governor Matheson indicated that he would rather see excess water returned to the State than sold to other users, although his approach does not solve the problem that an individual user may choose to continue wasting water rather than lose his right through water conservation. When explained properly, it is clear that this is an optional program to augment efforts which are necessary to some extent in every State. However, Interior and DPS feel it may be perceived as bordering too closely on meddling with State water rights for it to be supported as a separate initiative. OMB and CEQ support it as a separate action.

_____ Approve as separate program (OMB, CEQ)

- ☒ Disapprove as a separate program but allow some funding for this purpose with recommended amount for consolidated State grant program described above (Interior, DPS)
- ☐ Disapprove

p. 48. Federal reserved rights. You raised a question about the meaning of the first recommendation for Federal reserved water rights. More simply put, this recommendation would lead to a directive telling the relevant Federal agencies to expedite quantification of the Federal water rights, consulting with the States and water users, and focusing on high priority areas first. This is precisely what the Governors recommended to you, although they will probably differ on some specific proceedings, and would prefer that we conceded to their assertion of State court jurisdiction (which we do not). ✓

pp. 48-50. Federal and Indian reserved rights. You raised general questions about both Federal and Indian reserved rights -- whether we will be able to uphold these rights in the face of heavy pressures, and how our proposals would help the Indians.

The quantification of these rights will in large part be determined in the courts, although we are proposing a policy statement in favor of negotiated settlements where possible. An important National Forest reserved rights case has just been argued in the Supreme Court and its outcome will give some indication of what is to come in this area. The recommendations in the water policy memorandum would be a significant policy indication -- not really changing the Federal government's legal posture, but making a commitment to be reasonable and expeditious in the quantification of these rights. The Indians will feel reassured by the statements that we support Federal court jurisdiction for their claims and that we will generally be favorable toward development of Indian water resources (which the Interior Department has traditionally made a low priority). ✓

Additional Issues

1. Creation of Federal-State-local water policy task force. As a result of extensive consultations with State and local government officials, all agencies recommend

that an advisory task force be created to consider water policy issues on a continuing basis. Easterners feel that their problems have not been adequately considered and would like to have a continuing forum. Local governments feel that too much emphasis has been placed on States. States generally feel that they need a continuing role.

Overall, many have voiced the opinion that this water policy is only a "first step." They are looking for a commitment from us to continue to hear their views on water policy.

We think that creation of a Task Force would be a visible demonstration of our intention to continue to work closely with State and local governments. With virtually no cost we can achieve a lot of goodwill.

We would propose that the group be comprised of principals (Governors, Mayors, Cabinet officers, etc.), that it meet only a few times a year and that each of the following entities be asked to designate a fixed number of participants:

National Governors' Association
National Conference of State Legislatures
National League of Cities
U. S. Conference of Mayors
National Association of Counties

Federal participants would be the Federal members of the Water Resources Council.

✓
_____ Approve announcement of Federal-State-local group (Consensus)

_____ Disapprove

2. Issues raised by environmentalists. The environmentalists who met with you raised several options which for the most part have been incorporated in the recommendations. CEQ requested that we provide you a brief summary of how the environmentalists' options fit in:

-- Promulgate regulations implementing the Fish and Wildlife Coordination Act, the National Historic Preservation Act and the Federal Water Pollution Control Act as it relates to water projects. The

first two statutes are definitely covered in the approved recommendation, but the third (requiring Federal projects to comply with State water quality standards) creates a number of problems which we believe should be resolved separately. ✓

- Make water and soil conservation a prerequisite to Federal project funding. We have gone quite far in this direction in the water conservation and SCS recommendations. ✓
- Apply all reforms to the authorized project backlog. Under the recommended options, the planning reforms (revised Principles and Standards) would apply to authorized projects not under construction. Existing laws would of course apply to all projects. Mandatory cost-sharing changes would apply to projects not yet authorized, but voluntary cost-sharing would apply to authorized projects not under construction. There is a question about the applicability of the improved Principles and Standards requirements to projects which are technically classified by Congress and the agencies as "under construction" but for which only land acquisition or other minor work has been accomplished. The environmentalists would like the definition of "under construction" modified to mean actual construction. However, the projects which were reviewed last year included the projects in the looser "under construction" status and it would be controversial to support an absolute change in the definition. However, we feel it is appropriate to preserve the flexibility to insist on adequate planning for some projects in this status when particular problems arise. We would remain silent on this in the policy message and respond to questions by saying that in general we will abide by the Congressional definition of "under construction" but in some cases it would not be appropriate for a minor appropriation to preclude the application of the improved planning requirements. ✓

*Apply reforms
when feasible*

_____ Preserve some flexibility but do not make
absolute change in definition (Consensus)

_____ Change definition

_____ Exempt all projects technically "under construction" from new requirements

- Revise computation of navigation benefits so that regional "savings to shippers" are not counted as net benefits, but that net benefits be based on the overall transportation system. This particular benefit calculation, as well as a number of other suspect benefit calculation procedures, will be included in the directive to the Water Resources Council for examination as part of the preparation of the Principles and Standards implementing manual. ✓

Attachments

Total Expenditures and State Payments Associated with
Alternative Financing Arrangements on Potential New Starts
(\$ millions)

		Current Situation				Total State Payments over Construction Period Under Alternative Cost Sharing Rules			Annual Federal and State Cost Shares at 10% vendibles and 5% non-vendibles													
Projects with Vendible Outputs	Total Cost	First Cost		Reimbursement to Fed	Approximate present value of repayments @6 5/8%	10% of Total Fed Cost	10% on vendibles only	10% on vendibles 5% on non-vendibles	1979								1980		1981		1982	
		Local	Fed						State	Fed	State	Fed	State	Fed	State	Fed	State	Fed	State	Fed	State	Fed
McGee Creek, OK	96.6	.4	96.1	84.0	1/ 84.0	9.6	9.6	9.6	.40	3.60	.40	3.60	.40	3.60	.80	7.20						
Oroville-Tonasket, WA	43.1	.7	42.4	12.5	3.6	4.2	1.2	2.7	.12	1.90	.12	1.90	.12	1.90	.24	3.80						
Animas-LaPlata, CO NM	297.9	1.0	296.9	86.9	2/ 81.4	29.7	10.3	19.4	.14	1.90	.14	1.90	.30	3.70	.40	4.60						
Hartwell, 5th Unit, GA, SC	14.0	--	14.0	14.0	14.0	1.4	1.4	1.4	.10	.90	.50	4.50	.60	5.40	.20	1.80						
Total	451.6	2.1	449.4	197.4	183.0	44.9	22.5	33.1	.80	8.30	1.30	11.90	1.40	11.30	1.64	17.40						
Projects with non-Vendible Outputs																						
Big South Fork, TN, KY	124.3	--	124.3	--	--	12.4	--	6.2	1.0	20.0	.9	17.0	1.9	17.0	1.0	21.0						
Phoenix, AZ	253.2	119.3	133.0	--	--	13.3	--	6.7	.1	2.0	.4	8.0	.5	9.0	.4	8.0						
Barbers Pt, HA	49.1	6.7	42.4	--	--	4.2	--	2.1	.4	9.0	.8	16.0	.7	13.0	.2	4.0						
Prairie du Chien, WI	4.5	.9	3.6	--	--	.4	--	.2	.1	1.0	.1	1.0	.0	1.0	--	--						
Total	431.1	126.9	303.3	--	--	30.3	--	15.2	1.60	32.0	2.2	42.0	2.1	40.0	1.6	33.0						

Note: 1/4% General Revenues cap on State shares would not affect any of these projects under any of the listed cost-sharing rules.

1/Largely M&I water

2/Largely M&I water: Irrigation allocated \$294 M, will repay \$4.2 M @6 5/8%

May 23, 1978

Ex-Post Application of Alternative Cost
Sharing Rules to Representative States, 1976

(\$ in Millions)

State	All Gen. Revenue From Own Sources	1/4% Gen. Rev.	Total Federal Water Appropria- tions*	Vendibles	COST RECOVERY				
					Straight 10% for all project purposes No CAP	10% on vendibles rule		10% on vendibles 5% on non-vendibles	
						With 1/4% CAP	W/O 1/4% CAP	With 1/4% CAP	W/O 1/4% CAP
Alabama	1554	3.9	81	2.8	8.1	0.3	0.3	4.2	4.2
Arizona	1203	3.0	57	16.3	5.7	1.6	1.6	3.6	3.6
California	12310	30.8	181	107.8	18.1	10.8	10.8	14.5	14.5
Colorado	1288	3.2	78	27.9	7.8	2.8	2.8	4.3	4.3
Florida	3347	8.4	27	--	2.7	--	--	1.4	1.4
Georgia	1946	4.9	12	7.2	1.2	0.7	0.7	0.9	0.9
Idaho	400	1.0	25	8.3	2.5	0.8	0.8	1.6	1.6
Illinois	5493	13.7	83	--	8.3	--	--	4.2	4.2
Iowa	1446	3.6	28	5.0	2.8	0.5	0.5	1.7	1.7
Kentucky	1705	4.3	41	7.6	4.1	0.8	0.8	2.5	2.5
Louisiana	2264	5.7	69	--	6.9	--	--	3.5	3.5
Massachusetts	3161	7.9	13	--	1.3	--	--	0.7	0.7
Minnesota	2635	6.6	3	--	.3	--	--	0.2	0.2
New Jersey	2904	7.3	3	--	.3	--	--	0.2	0.2
New York	11599	29.0	13	--	1.3	--	--	0.7	0.7
Pennsylvania	5781	14.5	70	1.2	7.0	0.1	0.1	3.6	3.6
Washington	2190	5.5	204	191.1	20.4	17.5	19.1	18.1	19.7
TOTAL	61226	153.1	988	375.2	98.8	35.9	37.5	66.1	67.6

* Corps and BuRec Only.

DATE: 27 APR 78

FOR ACTION: HAMILTON JORDAN #1

JODY POWELL #2

ANNE WEXLER #3

BOB LIPSHUTZ #7

FRANK MOORE #4

JACK WATSON #5

RICHARD PETTIGREW #6-NC

INFO ONLY: THE VICE PRESIDENT #8

FRANK PRESS #9

SUBJECT: WATER POLICY DECISION DOCUMENT PREPARED BY INTERIOR,

OMB AND CEQ

ADMINISTRATIVELY CONFIDENTIAL

+++++
+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +
+ BY: 1200 PM SATURDAY 29 APR 78 +
+++++

ACTION REQUESTED: NO EXTENSIONS - SATURDAY AT NOON

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

WASHINGTON

DATE: 27 APR 78

FOR ACTION: HAMILTON JORDAN

FRANK MOORE

JODY POWELL

JACK WATSON

ANNE WEXLER

RICHARD PETTIGREW

BOB LIPSHUTZ

INFO ONLY: THE VICE PRESIDENT

FRANK PRESSADMINISTRATIVELY
CONFIDENTIALSUBJECT: WATER POLICY DECISION DOCUMENT PREPARED BY INTERIOR,
OMB AND CEQ

ADMINISTRATIVELY CONFIDENTIAL

+++++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: 1200 PM SATURDAY 29 APR 78 +

+++++

ACTION REQUESTED: NO EXTENSIONS - SATURDAY AT NOON

STAFF RESPONSE: (X) I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

Midway through the water policy review, OSTP completed a study of scientific and technological aspects of water policy for the water policy committee. The decision document is consistent with our findings and recommendations.

THE WHITE HOUSE

WASHINGTON

April 27, 1978

MEMORANDUM FOR

SENIOR STAFF

FROM

STU EIZENSTAT

Stu

SUBJECT:

Water Policy Memorandum

Attached is the water policy decision document prepared by Interior, OMB and CEQ. The President has requested that this be expedited.

Some of the issues are somewhat complicated. If you have questions or would like further information on any of the issues presented, Kathy Fletcher of my staff (x2564) would be happy to assist.

Thank you.

Attachment

DATE: 27 APR 78

FOR ACTION: HAMILTON JORDAN

FRANK MOORE

JODY POWELL

JACK WATSON

ANNE WEXLER

RICHARD PETTIGREW

BOB LIPSHUTZ

INFO ONLY: THE VICE PRESIDENT

FRANK PRESS

SUBJECT: WATER POLICY DECISION DOCUMENT PREPARED BY INTERIOR,

OMB AND CEQ

ADMINISTRATIVELY CONFIDENTIAL

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 + RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +
 + BY: 1200 PM SATURDAY 29 APR 78 +
 +++++

ACTION REQUESTED: NO EXTENSIONS - SATURDAY AT NOON

STAFF RESPONSE: () I CONCUR. (☒) NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW: *Raf*

ADMINISTRATIVELY
 CONFIDENTIAL

solate

DATE: 27 APR 78

FOR ACTION: HAMILTON JORDAN

FRANK MOORE

JODY POWELL

JACK WATSON

ANNE WEXLER

RICHARD PETTIGREW

BOB LIPSHUTZ

INFO ONLY: THE VICE PRESIDENT

FRANK PRESS

SUBJECT: WATER POLICY DECISION DOCUMENT PREPARED BY INTERIOR,
OMB AND CEQ

ADMINISTRATIVELY CONFIDENTIAL

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+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +
+ BY: 1200 PM SATURDAY 29 APR 78 +
+++++

ACTION REQUESTED: NO EXTENSIONS - SATURDAY AT NOON

STAFF RESPONSE: () I CONCUR. (☒) NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

BJ